STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of: Informational Proceedings and Preparation of the 2003 Integrated Energy Policy Report	Docket 02-IEP-01 NOTICE OF COMMITTEE WORKSHOPS

WESTERN POWER TRADING FORUM
COMMENTS BASED ON WORKSHOPS FOR BOTH
ELECTRICITY AND NATURAL GAS MARKET ASSESSMENT

Held on June 10 and 11, 2003

The Western Power Trading Forum ("WPTF") appreciates this opportunity to submit post-workshop comments to the Commission regarding several points made at the above-noted workshops. WPTF is a California non-profit, mutual-benefit trade association promoting competitive energy markets in the Western States. Our membership roll can be found on our website at www.wptf.org . The workshops were very helpful in understanding the findings and public opinion regarding the California Energy Commission's (CEC) Electricity Infrastructure Assessment, and the Preliminary Natural Gas Market Assessment.

Our statement addresses three main points:

- We encourage the Commission to support a policy that all electricity Load-Serving Entities should have the same obligation to procure adequate resources to meet both the peak-load requirement and reserves;

- Allow natural gas non-core customers and their suppliers unfettered ability to determine their own interstate pipeline capacity requirements without the gas utilities being required to acquire capacity for them; and
- A policy of state-supported natural gas storage development may impose a new stranded cost on natural gas non-core customers.

I. OBLIGATION TO PROCURE ELECTRICITY RESOURCES AND RESERVES

Resource adequacy mechanisms are necessary in California due to the lack of a fully functioning market. The current FERC-imposed price mitigation measures prevent wholesale spot energy and ancillary services prices from clearing at levels sufficient to enable generators to fully recover their fixed costs.[1] In the absence of such a market, resource adequacy requirements are needed in order to ensure market stability and long-term supply availability.

Central to the question of how to ensure resource adequacy, comments were made at the CEC workshop about the obligation of all load-serving entities (i.e., public utilities, direct access customers, community choice aggregators and municipal utilities).

WPTF supports the following principles for assuring resource adequacy for the state:

- The Commission is urged to support a reserve margin requirement that would apply to all load-serving entities (LSE). Based on experience in California and elsewhere, the provisional range of 15 to 18 percent appears to be a reasonable lower bound for such a reserve margin target.

[1] The inability to fully recover fixed costs applies to both existing resources and new generation projects.

- To the extent the Commission deems that certain LSEs are not CPUC jurisdictional, WPTF encourages the CEC to work with other California agencies (e.g., California ISO, and the California Public Utilities Commission ("CPUC")) to ensure that all entities are required to meet the same resource adequacy requirements as CPUC-jurisdictional LSEs. WPTF believes this approach is consistent with allowing the state, rather than FERC, to address the issue of resource adequacy. .
- The elements of an LSE resource plan must be clearly identified, and specified in sufficient detail as to allow reviewing authorities the ability to clearly evaluate the resources being relied upon to meet the established resource adequacy requirement.
- The contribution of the various components of an LSE supply portfolio to resource adequacy compliance will call for some flexibility during a transition period (i.e., grandfathering of existing contracts).
- A planning horizon of three to four years is appropriate for evaluating resource adequacy; the forward planning horizon should be long enough to allow new generation to be built if projected reserve margins appear inadequate.
- The procurement plans submitted by the utilities should be premised on a potential core/non-core split, consistent with current proposals by the legislature and some of the utilities, to avoid the creation of new stranded costs.
- Merchant providers and utilities should be able to operate in a stable regulatory environment. Experience in other states suggests that a stable regulatory environment will produce adequate generation resources in a fair and cost-effective manner.

II. NON-CORE CUSTOMERS AND THEIR SUPPLIERS SHOULD CONTINUE TO BE FREE TO DETERMINE THEIR OWN INTERSTATE PIPELINE CAPACITY REQUIREMENTS

Consistent with the policy that non-core customers should be free to acquire gas from third party suppliers in a competitive gas commodity market since the 1980s, non-core customers have been permitted under California policy to determine their interstate pipeline capacity requirements. Some non-core customers, primarily electric generators, have elected to acquire interstate pipeline capacity in their own name. Others have elected to contract with producers or marketers that, in turn, contract for interstate pipeline capacity and deliver gas to non-core purchasers at border or citygate delivery points.

The policy of permitting non-core customers or their contracted suppliers to arrange for interstate pipeline capacity has worked. When interstate pipeline capacity additions have been required, non-core customers as well as suppliers have been among those that have supported interstate pipeline additions by contracting for capacity.

Recently, the CPUC required the gas utilities to acquire additional amounts of El Paso Natural Gas Company capacity that was made available through a "turnback" process. Pacific Gas and Electric Company intends to use its capacity to serve current core customer needs, which is appropriate. SoCalGas says it does not need additional interstate pipeline capacity to serve its core customers. SoCalGas already holds excess interstate pipeline capacity beyond the needs of the SoCalGas Gas Acquisition Department. It appears that the CPUC's reasoning was that SoCalGas should hold additional excess capacity for the benefit of all customers, including non-core customers.

As a matter of policy, further acquisition of excess capacity beyond the needs of core gas acquisition departments of the gas utilities should be avoided, leaving non-core customers and third party suppliers to determine the appropriate level of their commitment to interstate pipeline capacity.

Electric generators and other non-core customers are effectively using competitive markets to provide these services in ways that best meet their individual needs. The market is working to efficiently provided needed infrastructure, as demonstrated by recent interstate capacity upgrades, new storage facilities, and pending proposals for LNG terminals. State government intervention into the provision of these services for non-core customers would only create inefficiencies and new stranded costs. The role of state government in infrastructure decisions for non-core customers should be limited to assuring that CPUC regulated gas utilities maintain adequate intrastate transportation capacity for reliably serving all consumption requirements.

III. TURN'S PROPOSAL TO CREATE A STRATEGIC GAS RESERVE CREATE NEW STRANDED COSTS

At the June 11 public workshop a representative of TURN advocated consideration of a new strategic gas reserve using dedicated gas storage infrastructure. TURN expressed disappointment that the staff report does not provide the data needed to evaluate this proposal. In response, the CEC's David Maul stated that a new study of gas storage infrastructure would address this issue, with ample opportunity for public participation.

We are pleased with the staff's position that a full study is required, and we look forward to contributing to the process. However, WPTF is concerned that the creation of a strategic gas reserve may impose new stranded costs for unneeded storage capacity, or that it may constrain the efficient utilization of existing non-core storage arrangements.

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